

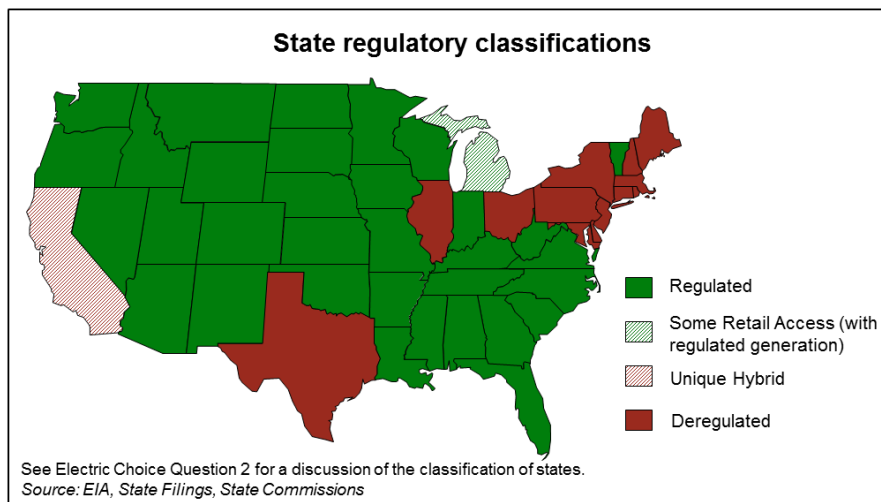
Electric Choice Question 4: *How are other retail electric choice (i.e., restructured) states similar or dissimilar to Michigan in terms of market structure (divestiture of utility business units), resource mix, generation capacity, and incumbent prices relative to competitive market prices?*

## Executive Summary

Michigan is fundamentally different from other restructured (deregulated) states along the dimensions of market structure, resource and generation capacity, and prices:

1. There are currently 14 states that are fully deregulated, and therefore allow unlimited retail access. California and Michigan allow partial retail access. There are a few regulated states that have retail access options, however these options are highly restrictive and have limited use in practice, resulting in effectively full regulation
2. Michigan is the only state with retail electric access that has not separated electric generation from the utility; many deregulated states that have forced this separation are now facing reliability concerns
3. Michigan relies more heavily on coal-fired generation than almost any other deregulated state. Replacing some of these aging coal power plants will require substantial investment, which in turn requires a stable regulatory environment (as evidenced by the numerous challenges deregulated states are facing in attracting investment)
4. Michigan's retail electric rates are well below those of most deregulated states

- 
1. **There are currently 14 states that are fully deregulated, and therefore allow unlimited retail access. California and Michigan allow partial retail access. There are a few regulated states that have retail access options, however these options are highly restrictive and have limited use in practice, resulting in effectively full regulation.** *The data in this response compares Michigan to the other 15 retail access jurisdictions (including Washington D.C.).*



Electric Choice Question 4: *How are other retail electric choice (i.e., restructured) states similar or dissimilar to Michigan in terms of market structure (divestiture of utility business units), resource mix, generation capacity, and incumbent prices relative to competitive market prices?*

**2. Michigan is the only state with retail electric access that has not separated electric generation from the utility; many deregulated states that have forced this separation are now facing reliability concerns.**

	CA	CT	DC	DE	IL	MA	MD	ME	MI	NH	NJ	NY	OH	PA	RI	TX
Generation separated from the utility	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	In transition	Yes	Yes	Yes

Source: EIA

With the exception of Michigan, deregulated states have all forced separation of generation from the utilities' regulated distribution during the restructuring process, despite evidence for the greater economic efficiency of a vertically integrated utility. (See Electric Choice Question responses 18 and 19 for additional information)

*"Vertical integration is an efficient organizational choice if (1) assets are highly specific to a given use or location, (2) assets are utilized in activities that must be coordinated, and (3) if the best uses of an asset depend on contingencies that are hard to predict... Its characteristics suggest ... vertical integration as the likely industrial organization for electricity"*

Source: CATO Institute, "Vertical Integration and the Restructuring of the U.S. Electricity Industry" July 2006, <http://www.cato.org/sites/cato.org/files/pubs/pdf/pa572.pdf>

A Michigan Public Service Commission study on separating generation from the utility concluded that "any benefits that may be experienced by separating generation would be outweighed by the cost and would not result in a net economic benefit. The implementation of structural separation of generation and distribution would lead to higher customer costs"

Source: Michigan Public Service Commission, "Advisability of Separating Generation and Distribution within Electric Utilities in Michigan", October 2010

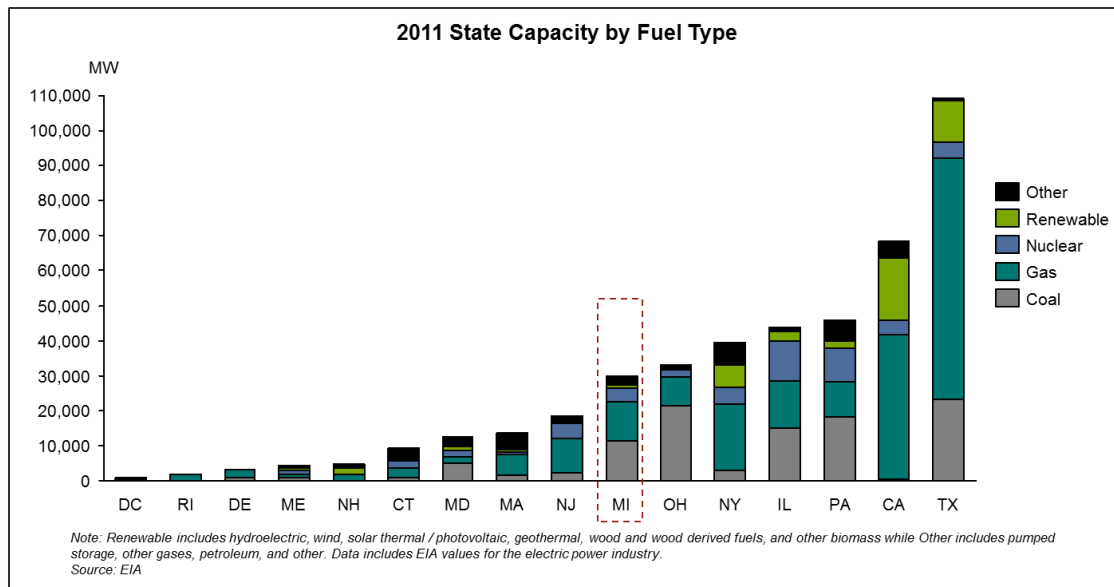
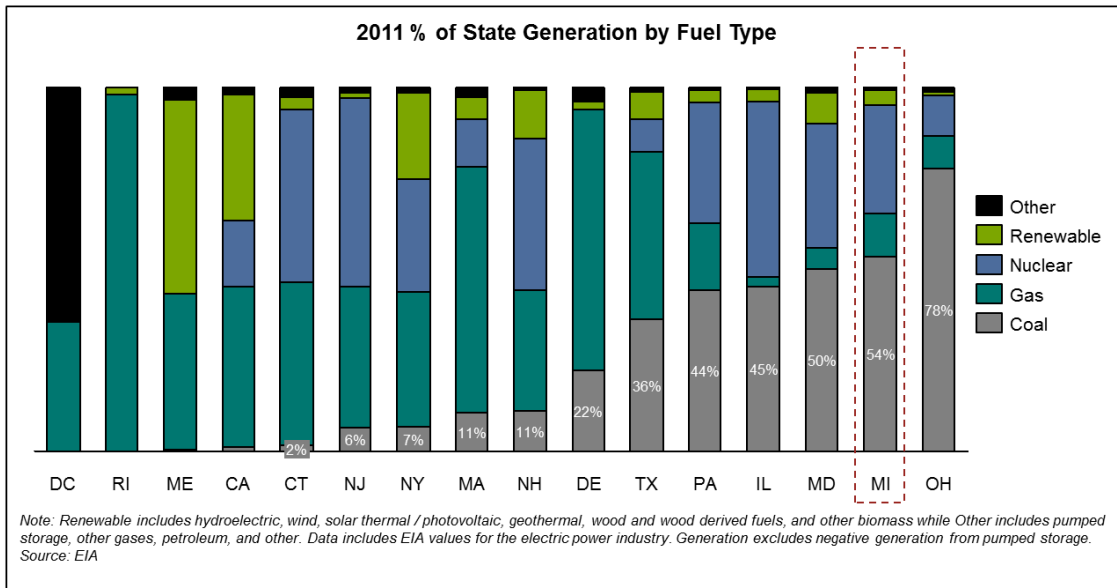
Several states that forced utilities to divest generation have begun to experience issues with getting new generation built, including Texas, Maryland, and New Jersey. Maryland and New Jersey have had to intervene with extreme regulated mechanisms far beyond traditional regulation to achieve desired reliability. The challenges of ensuring reliability under a deregulated model will become an even greater concern as coal plant retirements accelerate.

(See Electric Choice Question7 response for more information on deregulated states experiencing reliability issues and how the full challenges of investing for reliability under a deregulated model have yet to be experienced)

Electric Choice Question 4: *How are other retail electric choice (i.e., restructured) states similar or dissimilar to Michigan in terms of market structure (divestiture of utility business units), resource mix, generation capacity, and incumbent prices relative to competitive market prices?*

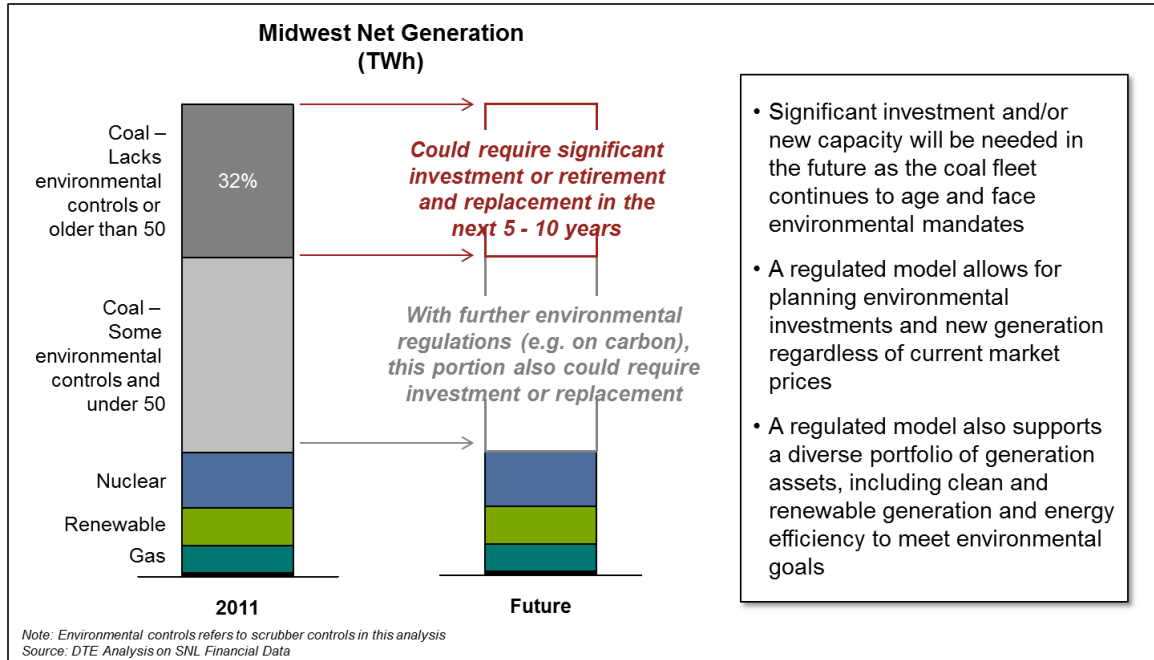
**3. Michigan relies more heavily on coal-fired generation than almost any other deregulated state. Replacing some of these aging coal power plants will require substantial investment, which in turn requires a stable regulatory environment (as evidenced by the numerous challenges deregulated states are facing in attracting investment).**

Michigan has a greater reliance on coal than other deregulated states, with over 50% of generation and ~40% of capacity fueled by coal.



Electric Choice Question 4: *How are other retail electric choice (i.e., restructured) states similar or dissimilar to Michigan in terms of market structure (divestiture of utility business units), resource mix, generation capacity, and incumbent prices relative to competitive market prices?*

In the Midwest, significant new generation build or environmental control investment will be necessary to replace the current fleet with a diverse fuel mix of generation.



It is essential that the Michigan regulatory model ensures that generators can invest for long-term reliability and environmentally responsible generation.

#### 4. Michigan's retail electric rates are well below those of most deregulated states.

